



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Buckeye Union High School District No. 201

As of September 7, 2005



Debra K. Davenport
Auditor General

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OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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January 3, 2006

Governing Board
Buckeye Union High School District No. 201
902 Eason Avenue
Buckeye, AZ 85326-2602

Members of the Board:

In our November 29, 2004, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2003. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of September 7, 2005. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2004, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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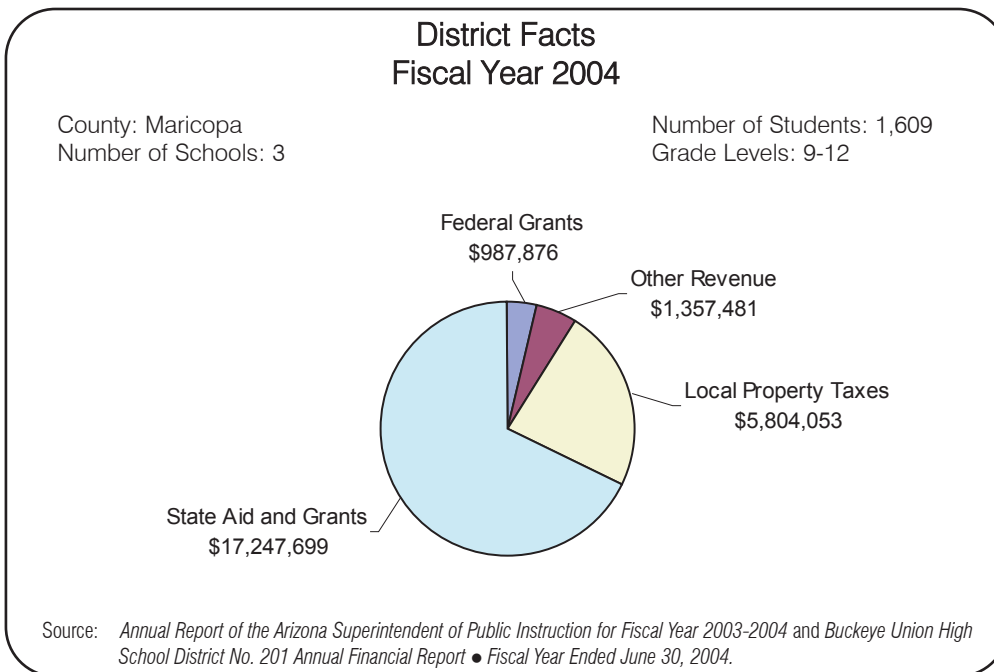
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INTRODUCTION

Buckeye Union High School District No. 201 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$25.3 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District should improve controls over cash receipts and bank accounts

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from various sources including auxiliary operations, student activities, and food service sales, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited in bank accounts. The District should also ensure that bank accounts are used as authorized by Arizona Revised Statutes. These controls require that the District document amounts received, deposit cash receipts in a timely manner and in the appropriate bank account, prepare purchase orders, cancel vendor invoices, issue checks only for allowable purposes, and reconcile bank accounts. However, the District did not have effective controls over its cash receipts and bank accounts. Specifically, the District did not always retain documentation to support auxiliary operations and food service a la carte monies received. In addition, auxiliary operations and student activities monies were not deposited in a timely manner and into the applicable bank account, and food service monies were not remitted to the County Treasurer in a timely manner. Also, the District did not always record activity in the food service clearing account check register, which resulted in a negative account balance in May 2005.

Further, the District did not always prepare purchase orders to support auxiliary operations expenditures and student activities disbursements, and did not always cancel vendor invoices for student activities disbursements. Additionally, the District inappropriately paid several employees' wages during a 3-month period from the Maintenance and Operation (M&O) Fund revolving account.

Finally, bank reconciliations for the food service, auxiliary operations, and student activities bank accounts were not prepared monthly, and the preparer did not always sign and date the the bank reconciliations for the M&O Fund revolving account.

Recommendations

To help strengthen controls over cash receipts and bank accounts, the District should:

Receipts

- Prepare and retain daily sales reports or cash collection summaries to reconcile sales to cash collected for all auxiliary operations monies received.

- Take a beginning and ending inventory of food service a la carte items and record them on a daily a la carte sales report to reconcile quantities sold to cash collected.
- Deposit cash receipts into the appropriate account. The Auxiliary Operations Fund should include only monies raised in connection with school bookstores and athletic activities. Monies raised by the efforts of students in connection with activities of student organizations, clubs, school plays, or other student entertainment should be deposited in the Student Activities Fund.
- Deposit all cash receipts daily, if significant, or at least weekly.
- Remit monies deposited into the food service clearing account to the County Treasurer at least monthly. Record receipts and disbursements in the check register to help ensure that a positive account balance is maintained.

USFR pages X-G-5 and 6 provide examples of auxiliary operations monies and USFR page X-H-5 provides examples of student activities monies.

Disbursements

- Prepare purchase orders to support auxiliary operations expenditures and student activities disbursements. Cancel all vendor invoices to prevent duplicate payments.
- Make disbursements from the M&O revolving account only for activities that require immediate cash outlays such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements. Salaries and wages may not be paid from this account.

Reconciliations

- Prepare complete and accurate monthly bank reconciliations for all bank accounts to verify the accuracy of bank and check register balances. The preparer should sign and date the bank reconciliations.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to have an accurate list of these assets to ensure they are properly identified and accounted for. However, the District did not accomplish this objective. For example, the District's capital assets list included improvements to buildings that had been demolished. In addition, the cost recorded

The District's stewardship list included 15 laptop computers that had been stolen and 4 others that could not be located.

on the capital assets list did not always agree to supporting documentation and cost documentation was not retained for some assets on the list. Further, tag numbers and locations on the District's stewardship list did not always agree with the tag number on the asset and the asset's location. The stewardship list also included laptop computers with identical serial numbers, many of which had been stolen and others that could not be located.

Finally, the District did not reconcile its physical inventory results to the capital assets and stewardship lists and did not document accumulated depreciation required for financial statement purposes for assets costing more than \$5,000.

Recommendations

The following procedures can help the District improve controls over its assets and ensure that the capital asset and stewardship lists are accurate and complete:

- Maintain a current capital assets list that includes items costing \$5,000 or more and with useful lives of 1 year or more.
- Maintain a current stewardship list that includes items costing between \$1,000 and \$5,000.
- Record capital asset items at actual cost, including ancillary charges such as sales tax, delivery, installation, assembly, and other incidental costs.
- Retain cost documentation such as purchase orders, receiving reports, and vendor invoices to support information recorded on the capital assets list, and verify that each asset's cost recorded on the list agrees with the supporting documentation.
- Affix a permanent tag with an identifying number to each item costing \$1,000 or more, or specifically identify the asset on the list by some other means, such as a serial number. Tags should be prenumbered, numerically controlled, and issued sequentially.
- Reconcile the physical inventory results to the capital assets and stewardship lists, and add items to or remove items, including lost or stolen items, from the lists, as necessary. Also, update the lists for items moved to different locations.
- Maintain information for asset depreciation, excluding land, for assets that cost more than \$5,000 in the same format as the capital assets list or prepare a separate depreciation schedule.

Instructions for documenting capital asset cost information are included on USFR pages VI-E-3 through 5.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not always have the required written documentation that issuing requests for proposals was more beneficial to the District than issuing invitations for bids. Also, the District did not retain required documentation when awarding the contract to the vendor who submitted the only responsive proposal. In addition, the District did not always obtain at least three oral price quotations for purchases that required them. Instead, it used quotations obtained the previous year or obtained quotations for only part of the purchase. Finally, the District did not retain documentation that goods and services ordered were received.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over purchasing, comply with the School District Procurement Rules and USFR guidelines, and adequately support expenditures, the District should establish and follow the policies and procedures listed below:

- Determine whether to request competitive sealed bids/proposals or oral/written price quotations by analyzing the quantities required for an item or a collection of items that, in the aggregate, may result in purchases above the competitive purchasing thresholds from one vendor.
- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services exceeding \$33,689.
- Obtain written determinations from the Governing Board that obtaining competitive sealed bids is either not practical or not advantageous to the District before issuing requests for proposals.
- Provide vendors with adequate notice to respond to invitations for bids and requests for proposals.
- Document that the price submitted was fair and reasonable when awarding a contract to the vendor who submitted the only responsive proposal.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

USFR pages VI-G-3 and 4 outline receiving report procedures.

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Prepare receiving reports for all goods and services received.

The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District's membership and absence records did not always agree to ADE's reports. In addition, the District did not always document the date student withdrawals were entered into the computerized attendance system. Withdrawals should be entered timely to ensure that the student's enrollment status is accurately reflected in ADE's Student Accountability Information System.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should record and report membership and absences in accordance with ADE's *Instructions for Required Reports*. A second employee should verify that membership and absences reported to ADE are calculated accurately and agree with the District's records. Also, the District should properly prepare student withdrawal forms and indicate the date the forms are entered into the District's computerized attendance system to ensure that students who have withdrawn from the District are not counted as attending.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District should not make expenditures that appear to be gifts of public monies

The District is responsible for ensuring that taxpayer monies are spent only for appropriate district purposes. However, it appears the District did not fulfill its responsibility since it used public monies to purchase gift cards for student incentives such as student of the month, scholarships, behavioral changes, and attendance.

Recommendation

Public monies may not be spent on private individuals unless there is a public purpose served by the expenditure and the value the public received is not far exceeded by the consideration paid. For expenditures that are not clearly for district operations, the Governing Board should evaluate the expenditure, determine that a public purpose is being served, and document that the public value expected to be received is not far exceeded by the amount being paid before such expenditures are made. The Governing Board's determination should be retained with the supporting documentation for the expenditure.